

50% CAP for Multilateral Implementing Entity projects exceeded

REPORT ON THE 19TH MEETING OF THE
ADAPTATION FUND BOARD

by Alpha O. Kaloga with the contribution of Sven Harmeling

Brief Summary

General background to the Adaptation Fund under the Kyoto Protocol

The Adaptation Fund (AF) was established under the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) in order to finance concrete adaptation projects and programmes, which should support the adaptation of developing countries to negative impacts of climate change. As Germanwatch has been following all the meetings one can find elaborate information on the Adaptation Fund and the past meetings on our web page www.germanwatch.org/klima/af. Germanwatch has also established a NGO Network to help NGOs in developing countries to better accompany the implementation of projects funded by the Adaptation Fund (see www.af-network.org). If you would like to be part of AF NGO Network; please fill the [Membership form](#). Last but not least, you can have a simple overview on the projects submitted to the AF through the **Germanwatch Project Tracker** at: <http://www.germanwatch.org/klima/afpt.xls>.

Official background information and the preparatory documents for the 19th meeting can be found at: <https://www.adaptation-fund.org/afb-meeting/3496>

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1 Executive Summary

From 13th to 14th December, the 19th meeting of the Adaptation Fund Board (AFB), the operating body of the Adaptation Fund established under the Kyoto Protocol, took place at Langer Eugen in Bonn, Germany. Two days prior to the meeting, the members of the two committees of the Board, the Ethic and Finance Committee and the Project and Programme Review Committee met for the tenth time. The Board has taken the following key decisions during the last meeting:

One of the key decisions adopted by the AFB during this meeting is the accreditation of three further NIEs. The "Agence pour le Développement Agricole (ADA)" du Maroc has been accredited intersessionally before this meeting. Two other NIEs were accredited at its meeting. They are the "Fundecooperación para el Desarrollo Sostenible" of Costa Rica and the "Agencia de Cooperación Internacional (AGCI)" of Chile. These new NIE accreditations increased the amount of accredited NIEs to 15.

The AFB considered three project concepts submitted for consideration at this meeting. One has been endorsed. This project was submitted by the "Banque Ouest Africaine de Développement (BOAD)" and sought to enhance resilience of agriculture to climate change to support food security in Niger. The two other concepts (Jordan and Togo) were not endorsed. The project of Jordan has been submitted by the "Ministry of Planning and International Cooperation (MOPIC)" acting as NIE. The second project has been submitted by the BOAD acting as Regional Implementing Entity. In addition, the AF approved six project proposals. Altogether nine fully developed proposals were submitted for approval at this meeting. Out of the nine proposals, three were not approved. These proposals are from Ghana and Uzbekistan, both submitted through the UNDP and the proposal of Mauritania submitted by the World Meteorological Organisation WMO. The AFB approved two fully developed proposals from Argentina and Sri Lanka. The AF requested the secretariat to draft an agreement with the World Bank and WFP. Noteworthy, in contrast to the four remaining proposals, it is important to highlight that the two proposals mentioned above are not subject of the pipeline. The four remaining fully developed proposals, all submitted by the UNDP, have also been approved. However, they have been put in the project pipeline according to the criteria set to prioritise projects for funding.

*The launch of the pipeline for approved MIE projects waiting for funding was one of the highlights of this meeting. The AFB has decided in its previous meeting that because of the financial constraints of the AF, the cumulative budget allocation for funding projects submitted by MIEs should not exceed 50 per cent of the total funds available for funding decisions in the Adaptation Fund Trust Fund at the start of each session. This decision was difficult for the AFB to implement. It is clear that the AF would not want to disburse all of its resources for MIE projects, when it offers direct access to national institutions for the first time. This decision clearly draws the attention of Parties to show that the AF needs further resources. The CERs monetization has been disappointing and well below every expectation. In addition, most of the Annex II countries are reluctant to allocate funding into the very controversial AF., Should this trend persist, the AFB will be forced to hold MIE off MIEs to submit project proposals to the fund. The Board also discussed the budget for the fiscal year 2013 as well as the report of the trustee on the monetization of CERs. The AF was delighted to acknowledge the disbursement of **100 million Swedish Krona to the AF** by the government of **Sweden** and invited other developing countries in the position to do so, to pledge money for the AF.*

The AFB also had to devote time on its code of conduct by calling on both implementing entities and board members to refrain from any kind of breach of the set ethic code of conduct. In addition to the decisions of the Board at its 19th meeting, this document also deals with both activities of the AF during the CMP (its report to the CMP and the review of the institutional arrangements) and minutes of the third CSO dialogue with the AF Board members as well as the side event organised by the secretariat.

2 Report of the Accreditation Panel (AP)

The Accreditation Panel (AP) of the AFB is in charge of reviewing accreditation applications for National Implementing Entities (NIEs), the key element in the AF's direct access approach, as well as for Multilateral Implementing Entities (MIEs) and Regional Implementing Entities (RIEs).

Since the last meeting, the AP has been reviewing and scrutinizing both new and pending entity applications. In doing so, it has held teleconferences with, and conducted field visits to some applicants, if their applications were seen as strong enough to have good prospects for accreditation.

Applications by two new NIEs and one (RIE) were received as well as additional documents of a MIE that was previously considered. At this meeting, the AFB took, according to the recommendation of the AP, following key decisions:

2.1 *Accreditation of three NIEs substantiating the direct access*

According to the recommendation of the AP, the AFB accredited intersessionally one NIE - the Agence pour le Développement Agricole (ADA) du Maroc and two other NIEs at its meeting - the Fundecooperación para el Desarrollo Sostenible of Costa Rica and the Agencia de Cooperación Internacional (AGCI) of Chile. These new NIE accreditations increased the amount of accredited NIEs to 15.

2.1.1 **Agence pour le Développement Agricole (ADA) du Maroc**

The accreditation process of ADA lasted ten months. The first consideration by the AP of the application was undertaken in February 2012. During the accreditation process, the AP members conducted a field visit in August 2012, in order to first hand assess, whether the applicants could meet the fiduciary standards.

ADA was created in 2009 by the Moroccan government as part of its national strategy to greening its agricultural by contribution to the development of the country. This greening plan, also called Green Morocco Plan (GMP)¹ is based on the premise of an investment of MAD 140 billion (or over ten billion US dollars) during the period 2009-2020 and involves over 1500 individual projects to commercial and small holders².

The ADA was accredited intersessionally on November 16th³. It is the first NIE in the Maghreb regions and the sixth in Africa.

2.1.2 **Fundecooperación para el Desarrollo Sostenible (FDS) of Costa Rica**

The accreditation process was even shorter than the one of the ADA. It lasted eight months in total. Fundecooperación is a small foundation⁴ which was earmarked at its creation in 1994 to act as an implementing agency for a Dutch grant of USD 13.2 covering 36 projects in three countries (Costa Rica, Bhutan and Benin). It is an example of South-South Cooperation.

¹ <http://www.ada.gov.ma/en/accueil.php>

² The programme is funded through domestic resources but also through bilateral and multilateral channels

³ Decision b.18-19/19

Other activities carried out by the foundation covered 200-300 projects including an equivalent of USD 11 million provided partially in form of grants and of loans for development.

Throughout the accreditation process, the gaps identified by the AP were addressed through interaction between the applicant and the AP. Finally, the AP recommended to the AF to accredit the Fundecooperación para el Desarrollo Sostenible of Costa Rica as a NIE⁵. It is the fifth NIE from Latin America.

2.1.3 Agencia de cooperación Internacional (AGCI) of Chile

The accreditation of the AGCI is the longest in terms of time spent for accreditation. The first proposal was submitted in November 2011. Although all documents were provided, the AP could not consider them until the applicants translated key documents identified by the secretariat.

Further interexchange took place between the applicant and the Panel, in order to address the outstanding issues for finalisation of the accreditation process. After the required documentations and information were provided, and the outcome of the field visit conducted by the panel was judged satisfactory, the AP decided at its last meeting to recommend to the AFB to accredit the AGCI as a NIE.

The AGCI is an independent unit established under the Ministry of External Relations of Chile, with the goal of supporting Government development plans, programs, projects and activities through training, provision and management of international cooperation resources. Another objective of the Agency is to implement, carry out and execute international cooperation for and between developing countries⁶. It serves as a channel for bilateral funds flowing into the countries and acts as an agency for South-South cooperation projects. The accreditation of the AGCI increases the number of NIEs in Latin America to six.

2.2 Accreditation applications in the pipeline

Actually, 11 applications - six for NIEs (including the two new applications), four for Regional Implementing Entities (RIE) and one MIE - are in the accreditation pipeline. Their accreditation processes are at different stages of development, some of the applicants need to provide additional information, while for others field visits are planned. These field visits should enable the AP to check first-hand, whether the gaps identified in reviewing the documents are bridgeable or not.

It is important to stand fast, by mentioning that in 2012, at least one NIE was always accredited at each meeting. This is of course a strong signal that developing countries recognise the direct access as the alternative to the classic way of financing in developing countries. However, as there is a broad recognition that the NIEs seem despite their proved capacity to manage project as it is covered by the fiduciary standard, they seem not to be strong enough in dealing with preparation and submission of concrete adaptation proposals. Out of the 15 so far accredited NIEs, only three have secured funding for fully developed proposals, which are under implementation. In addition, two NIEs have gotten their concepts endorsed by the AF, which are in the pipeline to be fully developed and then submitted for approval. The remaining 10 NIEs are quite silent in term of submission of concrete project proposals. At the dawn of the operationalisation of the GCF, the lesson learnt of the AF with respect to both accredita-

⁴ <http://fundecooperacion.org/?lang=en>

⁵ Decision B.18-19/20

tion of NIEs and value of the delivery of projects implemented, is seen as critical for the debate and the design of direct access in the GCF. This could only be ensured, if there are enough projects implemented by the NIEs.

Another important decision taken with respect to the accreditation process has to do with MIE or RIE applications that could not be successfully accredited, without the AP conducting a field visit to the respective IEs. The AP recommended the AFB to request the particular MIE or RIE to cover the costs associated with such a visit. This decision shows that although the AFB remains committed to accredit further MIEs and RIEs, it however sees no reason to assist multilateral regional agencies to enhance their capacity to meet the international fiduciary standards it has set.

This decision could be seen as a confession by the AF to only assist the accreditation process of NIEs. With this decision the AF does not foreclose from the front not to assist multilateral agencies in the accreditation process, but excludes any financial support, if it comes to conducting a field visit to a MIE. The rationale behind this decision is the same as not to provide project formulation grants to MIEs, because they usually use multiple sources of financing and have a stronger institutional capacity than NIEs.

3 Report of the tenth meeting of the Project and Programme Review Committee

The Project and Programme Review Committee (PPRC) is responsible for assisting the Board in tasks related to project and programme review and implementation in accordance with the Operational Policies and Guidelines and for providing recommendations and advice to the Board thereon⁷. Thus, during the meeting, the Board debated the recommendations suggested by the PPRC on approval of the submitted project proposals, which are based on the technical review made by the Secretariat. Furthermore, the PPRC initiated a discussion on options for engagement of the scientific community in providing inputs related to technical issues as well as on how to set a pipeline to prioritize MIE projects, when the 50% cap of the available funding of projects for MIEs is exceeded.

3.1 Review of project proposals

Before presenting the decision reached by the AFB regarding projects submitted to the Board for approval, it is important to firstly recall the discussion that has taken place in the PPRC meeting. Beforehand, one should bear in mind that the committee meetings are closed for observers, the findings presented here are based on the report of the committee to the board and distributed to all attendees during the 19th meeting of the AFB.

Accordingly, the secretariat, as usual, presented its report on its initial screening process to the committee, which then served as a basis for the discussion in the committee as well as part of the recommendation of the PPRC to the AFB.

15 project proposals were submitted and screened by the secretariat for the 19th AFB meeting. The total requested funding amounted to US\$ 110,604,448. Among the proposals were four project concepts, with total requested funding of US\$ 39,911,000 and 11 fully developed proposals, with total requested funding of US\$ 70,693,448. The proponents of three proposals -

⁶ <http://www.agci.cl/>

⁷ See document AFB/B.6/6 on the Adaptation Fund Board committee

one concept and two fully-developed proposals- withdrew their proposals after the first initial review undertaken by the secretariat, while other proponents altered the total budget requested for funding according to the suggestion by the secretariat. The final total funding requested of the 12 remaining proposals amounted to US\$ 83,864,476, including US\$ 29,753,975 for the three concepts, and US\$ 54,110,501 for the nine fully developed proposals. The average IEs management fees charged for the projects amounted to US\$6,288,847 or 8.2%⁸ and US\$4,763,372 or 6.7%⁹ for the execution costs. All the proposals were in compliance with the Board's Decision B.11/16 to cap the management fee at 8.5% and none of the project execution fees exceeded the cap of 9.5% set by the AFB.

Among the three concept notes submitted, one was sent by the Ministry of Planning and International Cooperation (MOPIC) of Jordan acting as NIE. And the two remaining project concepts were submitted by the regional IE (RIE), namely the Banque Ouest Africaine de Développement (BOAD) submitted on behalf of the government of Niger and Togo, respectively. The United Nations Development Programme (UNDP) submitted six fully-developed project documents for Cuba, Ghana, Guatemala, Myanmar, Seychelles and Uzbekistan. The World Food Programme (WFP) and The World Bank (WB) each submitted a fully-developed project document for Sri Lanka and Argentina respectively. Both proposals have been considered once at the 18th meeting, but were not approved at that. Last but not the least, the World Meteorological Organization (WMO) resubmitted the fully-developed project document for Mauritania, which had also been considered at the 18th meeting and was not approved.

After the last meeting, the cumulative funding for MIE projects represented 48.9% or USD 285,72 of the sum of the cumulative project funding available to support funding decision¹⁰. So, should the AF approve all fully-developed proposals submitted by MIEs, the cumulative funding decision for MIEs would then amount to USD 191.92. This would represent 67% of the sum of cumulative projects funding decisions for MIEs, which would exceed the 50% cap set by the AF. Currently the cumulative funding decision for NIEs is around 10% of all available funds for projects.

3.2 *Prioritisation of the project pipeline*

As aforementioned, the issue of how to deal with MIE projects submitted for approval when the 50% cap is exceeded is one of the challenges the AFB has to rise to, for the first time. The AF had to set a pipeline with priority funding criteria for approved MIE proposals. This pipeline should address the question, in which order projects approved by the AF should be funded, when the 50% cap for MIEs exceeds. To answer this important query, there is a need for further guidance from the AFB to the PPRC and the secretariat on how to prioritise these projects following a clear order.

The starting point for the prioritisation of projects in the pipeline was laid at the 17th meeting of the AFB. At this meeting the AF decided to[...] prioritise projects/programmes in the pipeline by sequentially applying the following criteria:

⁸ The implementing entity management fee percentage is calculated compared to the project budget including the project activities and the execution costs, before the management fee.

⁹ The execution costs percentage is calculated as a percentage of the project budget, including the project activities and the execution costs, before the implementing entity management fee.

¹⁰ That the cumulative budget allocation for funding projects submitted by MIEs, should not exceed 50 per cent of the total funds available for funding decisions in the Adaptation Fund Trust Fund at the start of each session. That cumulative allocation would be subject to review by the Board on the recommendation of the Project and Programme Review Committee at subsequent sessions.

- a) *Date of recommendation by the PPRC, which is the approval date of the PPRC meeting report in which the recommendation is made, and the lower net cost*
- b) *Their submission date: this is a bit difficult to implement since each proposal may be submitted several times to the Board, there is no single definition for the submission date.*
- c) *The lower "net" cost: means the project budget before the implementing entity management fee¹¹*

In the discussion in the PPRC closed meeting, several board members sought more clarifications by the AF secretariat regarding sub-point b). The secretariat explained that the decision referred to the submission dates rather than the submission time. The submission date means the date of submission of the fully-developed proposal document to the particular meeting, in which it has to be recommended for approval by the PPRC.

Afterwards the AFB convened some members to express their concerns about the eventuality that some of the projects placed in the pipeline may not be financed in the course of 2013, because of the financial constraints of the Fund. Therefore, these member groups suggested to fund those MIE projects in the pipeline despite the set cap. In addition, they suggested to inform the MIEs that there may be no funding for them in the foreseeable future and to encourage them, however, to provide assistance to particularly vulnerable countries such as LDCs and SIDS in the accreditation process of their national entities.

On the other hand, some board members indicated that some bilateral funds need to be disbursed within a particular time frame, and therefore excluding MIE projects because of the fact that the cap may prevent the AF from disbursing the money of certain donors within their preferable time frame. This could also discourage some donors to allocate money into the AF.

After consultation, the Board decided to approve the pipeline and the project funding order as suggested by the secretariat (see below). In addition, the AFB decided to disburse intersessionally funding to proposals in the rank they are listed and subject to availability of funds. Finally, the board requested the secretariat to continue to explore innovative ways through which the board can address funding constraints.

For the time being, it is important that the AFB sticks to this decision. However, it is also important to weigh out the implications of this decision. Given the limited funding available for projects at all and the necessity of the board to secure additional funding to the monetisation of the CERs, some potential funders may think that the fund has sufficient funding for NIEs, that are reluctant and very slow in submitting project proposals. In addition, it is not wrong that the Secretariat, to some extent, will put pressure on the NIEs to push them to swiftly submit projects to the board.

3.3 Review of project and programme proposals:

Project proposals may undergo either a one-step or a two-step approval process¹². In the one-step approval process the proponent shall submit a fully-developed project/programme document. In the two-step approval process a brief project/programme concept is submitted as a

¹¹ See document: Prioritization of projects in the pipeline: submission dates (AFB/PPRC.10/5), para 13; https://www.adaptation-fund.org/sites/default/files/AFB.PPRC_.10.5%20Prioritization%20of%20projects%20in%20the%20pipelines.pdf

¹² A two-step process, while time consuming minimizes the risk that a proponent does not invest time and energy in fully developing a project or program document that fails to meet the criteria of the Fund

first step followed by a fully-developed project/document¹³. Funding will only be reserved for those approved projects with fully-developed project documents.

3.4 *Project concepts*

Three project concepts were submitted for consideration at this meeting. One has been endorsed. This project was submitted by the Banque Ouest Africaine de Développement (BOAD) and seeks to enhance resilience of agriculture to climate change to support food security in Niger.

The two other concepts (Jordan and Togo) were not endorsed. The project of Jordan has been submitted by the Ministry of Planning and International Cooperation (MOPIC) acting as NIE. The second project has been submitted by the BOAD acting as Regional Implementing Entity.

Both proponents are encouraged to resubmit their proposal by taking into consideration the comments made by the PPRC:

3.5 *Fully developed proposal*

As mentioned above, nine fully developed proposals were submitted for approval at this meeting. Out of the nine proposals, three were not approved. These proposals are from Ghana and Uzbekistan, both submitted through the UNDP and one proposal of Mauritania submitted by the World Meteorological Organisation WMO.

Two fully developed proposals from Argentina and Sri Lanka were approved by the AFB. The project of Argentina aims at increasing and enhancing sustainable land management in the southwest of Buenos Aires province for the total amount of US\$ 4,296,817. The project of Sri Lanka has been submitted by the World Food Programme (WFP) and intends to address climate change impacts on marginalized agricultural communities living at the Maheweli River of Sri Lanka. The total amount requested for this proposal is US\$ 7,989,727. The AF requested the secretariat to draft an agreement with the World Bank and the WFP. Noteworthy is that the two projects will be funded and are therefore not subject of the pipeline.

The four remaining fully-developed proposals have also been approved. However, the proposals are put in the project pipeline according to the criteria elucidated above. All of them have been submitted by the UNDP and will be funded following this order:

Fully-developed project documents submitted to the AFB arranged according to					
Options 2: Submission date to the latest meeting					
	Countries	Submission date	Net cost	Mill. USD	Cumulative
1	Guatemala (WB)	10/4/2012	5.00	5.43	17.68
2	Cuba (UNDP)	10/8/2012	5.59	6.07	23.74
3	Seychelles (UNDP)	10/8/2012	5.95	6.46	30.20
4	Myanmar (UNDP)	10/8/2012	7.29	7.91	38.11

¹³ A fully developed project/programme is one that has been appraised for technical and implementation feasibility and is ready for financial closure prior to implementation

	Country/Title	IE	Document Ref	Project	Fee	NIE	RIE	MIE	IE fee%	Total Amount	Decision
1. Projects and Programmes:											
	Argentina	WB	AFB/PPRC.10/9	3,960,200	336,617			4,296,817	8.5%	4,296,817	Approved
	Sri Lanka	WFP	AFB/PPRC.10/16	7,363,804	625,923			7,989,727	8.5%	7,989,727	Approved
	Cuba	UNDP	AFB/PPRC.10/10	5,592,000	475,320			6,067,320	8.5%	6,067,320	Placed in Pipeline
	Guatemala	UNDP	AFB/PPRC.10/12	5,000,000	425,000			5,425,000	8.5%	5,425,000	Placed in Pipeline
	Myanmar	UNDP	AFB/PPRC.10/14	7,289,425	619,601			7,909,026	8.5%	7,909,026	Placed in Pipeline
	Seychelles	UNDP	AFB/PPRC.10/15	5,950,000	505,750			6,455,750	8.5%	6,455,750	Placed in Pipeline
	Ghana	UNDP	AFB/PPRC.10/11	7,644,214	649,758			8,293,972	8.5%		Not approved
	Mauritania	WMO	AFB/PPRC.10/13	1,990,764	169,216			2,159,980	8.5%		Not approved
	Uzbekistan	UNDP	AFB/PPRC.10/17	5,950,000	505,750			6,455,750	8.5%		Not approved
Sub-total				50,740,407	4,312,935	0	0	55,053,342	8.5%	38,143,640	
2. Project Formulation Grant:											
	Jordan	MOPIC	AFB/PPRC.10/6/Add. 1	30,000		30,000					Not approved
Sub-total				30,000		30,000				0	
3. Concepts:											
	Niger	BOAD	AFB/PPRC.10/7	9,135,000	776,000		9,911,000		8.5%	9,911,000	Endorsed
	Jordan	MOPIC	AFB/PPRC.10/6	9,105,000	500,775	9,605,775			5.5%		Not endorsed
	Togo	BOAD	AFB/PPRC.10/8	9,100,000	773,000		9,873,000		8.5%		Not endorsed
Sub-total				27,340,000	2,049,775	9,605,775	19,784,000	0	7.5%	9,911,000	
4. Total (4= 1 + 2 + 3)				78,110,407	6,362,710	9,635,775	19,784,000	55,053,342	8.1%	48,054,640	

3.6 Other Matters

3.6.1 Challenges confronted by the National Implementing Entities:

Out of the 14 NIEs accredited by the AF before this meeting, eight have not yet submitted any proposals for funding to the AF. This observation leads to the question of whether there is a need to support NIEs in the formulation of project proposals.

Although the AF has undertaken several activities to facilitate the accreditation process of NIEs such as the design of a tool kit throughout the accreditation process as well as through the support of regional workshops to familiarise Parties with the accreditation process. It came clear in the discussion that some board members were asking for MIEs to play a role in assisting developing countries, both for the accreditation of NIEs as well as the development of project and programme proposals to be submitted to the AFB.

The discussion also showed that the secretariat could play a further role in building the capacity of NIEs to meet and understand the requirement of initial guidance of project proponents. In this particular regard, the representative of the Secretariat pointed out that basically the Secretariat used to provide assistance to proponents regarding a proposal, but cautioned in the same breath, that besides the additional costs for these activities, it is also important for the AFB Secretariat to avoid any kind of conflict of interests that may arise by focussing only on providing information on the review.

Other important issues discussed during the report of the PPRC to the AFB were related to the language barrier faced by several NIEs. In the discussion, while board members expressed their sympathy for these problems, there was consensus that the AFB is not responsible to translate all project documents into different languages to enable the application of more non-English speaking countries. However, if an applicant wishes to do so, it could include the costs for translation of key documents that can boost the awareness raising exercise in its proposal.

4 Report of the tenth meeting of the Ethic and Finance Committee

According to its terms of reference, the EFC is responsible for providing advice to the Board on issues of conflict of interest, ethics, finance and audit. The EFC also met two days prior to the 19th meeting of the AFB for the tenth time to discuss several topics as followed:

4.1 Investigative Procedure (IP)

This document deals with different procedures that could trigger an investigative procedure as well as ways to address cases of misuse of the AF funds entrusted to the Implementing Entities (IE) and their Executing Entities (EE). It also gives an overview of all decisions and applicable rules of the AF to prevent the AF from such a mis-management.

The discussion on this matter is still ongoing and has started at the 16th meeting. Since Germanwatch¹⁴ has been covering this particular item from the start, this part will solely focus on new elements and their implications for the process. At the 18th meeting, the AFB requested

¹⁴ You can recall all Germanwatch Briefings and reports on the AF at www.germanwatch.org/klima/af

the board to comment on the documents. This revised version was presented at this meeting as well as the terms of reference of the investigative consultants for consideration.

At this stage, it is important to highlight that the secretariat produced the requested documents in consultation with the Integrity Vice-Presidency of the World Bank and by keeping informed the former legal counsel of the bank. However, since the legal counsel has changed, the new one believes that the current IP would not be consistent and appropriate with the secretariat mandate as given by the CMP. Should the secretariat be in charge of the investigative function, this would be an "extension of duties" that will not comply with the originally agreed upon functions of the AF. The legal counsel therefore proposed to the AF by approving the guidelines for investigations that it should delegate this function to the implementing entities. This means that the IEs being investigated should hire independent investigators on a case-by-case basis.

In the discussion, members expressed on the one hand their concern regarding, the conflict of interest that may emerge from the fact that the implementing entities should appoint the investigators, who is supposed to investigate its own potential mis-management. On the other hand, some other members regretted the lack of written proposals from the legal counsel.

It came also clear in the discussion, that it is worth to explore the option of the AF hiring its own legal advisor, who will be independent from the World Bank legal counsel taking advantage of the legal capacity of the AF conferred by the German government. The AFB requested the EFC to consider in addition to this option, other alternatives for consideration at its next meeting. In doing so, the AFB secretariat should

- ⇒ consider a proposal on how to implement legal status in Germany
- ⇒ provide an option for the Board to contract its own legal advisor
- ⇒ specify cost implications for the different options

4.2 Financial issues

4.2.1 Fundraising Campaign Strategy:

Given the financial constraints of the AF and also because of the fall of CERs price in the carbon market, the AFB requested the secretariat to report at its 17th meeting on its fundraising strategy and the state of negotiation with the UN Foundation, which is requested to facilitate and collect private donations to the AF. Following the recommendation of the EFC, the AF decided to set an initial fundraising target of US\$ 100 million until the end of 2013 on an experimental basis.

Following this goal, a public call for the submission of potential channels to reach the US\$ 100 million goal has been issued, and several stakeholders responded by suggesting several channels and innovative funding. Among the range of suggested opportunities, relevant fora and mechanisms were proposed as well as ways through which the AF could take advantage of them.

The discussion continued in the EFC at the subsequent meeting, providing details on options and potential implications of facilitating cash flows. At the same meeting, the AFB requested the secretariat i) to proceed with all necessary arrangements and efforts to reach out to philanthropic foundations and other organisations on how to raise funds and to come up with a report no later than at the 20th meeting of the AF; and ii) to organise a follow up meeting on the dialogue with donors in the margins of CMP8.

Regarding the discussion on this issue at this particular meeting the secretariat presented the contract closed with the UN Foundation (UNF) by mentioning that allocation of funding to the AF through the (UNF) is up and running, and several private donations have been received. Moreover, the secretariat also reported on the bilateral discussions with potential donors that took place in Doha during the COP and thanked the government of Sweden, for its new contribution of SEK 100 million as well as the Capital Region of Brussels, which considers making a pledge in January.

4.2.2 Financial status of the AF Trust Fund

As usual, the trustee presented the most recent financial report of the AF¹⁵, including the financial situation of the AF up to November 30th. According to the trustee, the AF has since the start of the CER monetisation received USD 324.4 million into the Trust Fund. This came from USD 187,9 million through CER monetisation and USD 134.5 million in donations including the above mentioned recent pledge from Sweden. As of the date of the report, funds held by the trustee amounted to USD 261,6 million, cash transfer proceeded by the Trustee amounted to US 62.6 million as of November 30th. Accordingly, funds available for new funding decisions lay at USD 136.0 million. In its report, the trustee pointed out its concern regarding the continued drop in the price of CERs, by indicating that the financial prospect of the AF will be severely impacted, should the trend in carbon markets not change.

4.2.3 Administrative Budget of the AFB, its secretariat and its trustee

The trustee and the secretariat presented their reconciliated budgets for the fiscal year 2012. The discussion on this matter was undertaken in the spirit of optional cost savings given the financial constraints of the AF. It came out that such an issue could only be debated adequately if an in-depth analysis of the financial costs of the fund is conducted.

The discussion on this matter also dealt with the translation issues of the documents of the AF. Accordingly the AFB agreed that members seeking translation of documents should communicate this to the AF secretariat no later than two months before each meeting. In addition, the Secretariat has been requested to issue a document containing estimates of workflows for 2014 with the goal of identifying areas where potential costs could be saved.

Regarding this matter, although it is strategically vital that the AF starts considering ways of saving costs in order to clear more resources for project funding, caution needs to be exercised however that this cost saving does not come at the charge of quality of work delivered by the AF secretariat. Furthermore, one should also recall the findings of the consultant regarding the review of the institutional arrangements. The reputation of the AF depends heavily on the daily business activities of the secretariat. There may be a natural way of saving resources without touching the core work provided by the secretariat.

4.2.4 CER monetization

As it is custom at each Board meeting, when it comes to discuss the financial issues of the AF, the trustee presented the activities it has undertaken to monetise the CERs as well as its future strategy with respect to CERs monetisation. According to the trustee, national governments are not interested to purchase CERs on the terms established by the AFB.¹⁶ The trustee also

¹⁵ AFB/EFC.10/7

¹⁶ In the term of selling strategy to government, the AF intends to purchase only industrial gas, at a premium price

informed about the closure of BlueNext Carbon exchange¹⁷ and sought further guidance on the condition for the trustee to join alternative exchanges to sell CERs.

The EFC and the Board later discussed the implications of the Doha decision, which extended the share of proceeds levied on the AAUs and ERUs, by taking into account the necessity to amend the terms of condition between the CMP and the trustee to permit the trustee to monetise these additional credits.

After intense discussions on the elements elucidated above the AF decided to provide up to EUR 250,000 as a reimbursable deposit to be provided to the clearing agent to be in charge of monetisation activities. Furthermore it requested the trustee to review the implications of the CMP decision to augment the AF through a two percent share of proceeds on AAUs and ERUs. It also requested the trustee to refrain from selling green and large hydro CERs by continuing to sell CERs from industrial gases.

4.3 Implementation of the code of conduct

This item deals with potential lobbying activities from certain board members as well as from implementing entities trying to influence the decision of the Board on project approval processes. It was agreed upon that such a lobbying incentive undermines the credibility and professionalism of the work of the Board.

Before the consideration by the board, the secretariat signalled that further guidance of the board could be needed with regards to the definition of lobbying activities as well procedure to be taken to deal with such cases, when it happens. However, it reminds that board members are supposed to be familiar with the code of conduct and the current guidance is actually enough to address this issue for the time being. It therefore urged Board members to read again the code of conduct as well as the proposed procedures to deal with lobbying activities. Accordingly, the AF secretariat was requested to circulate the amended code of conduct before each meeting.

5 Issues related to the Adaptation Fund in Doha

In Doha, two issues were on the agenda related to the Adaptation Fund: 1) the report of the Adaptation Fund Board to the CMP and 2) the review of the interim institutional arrangement of the fund.

5.1 Report of the AF to the CMP

As usual, the Adaptation Fund Board presents at each CMP meeting the report of all activities and achievements it has reached throughout the year for adoption. The Adaptation Fund Board chair emphasised among other things that the AF has now accredited 14 National Implementing Entities, to tackle the direct access modality for the first time in climate finance. Direct access allows developing countries to access to international funds through their own institution by strengthening their institutional capacities throughout the implementation phase. In

¹⁷ BlueNext is a European environmental trading exchange, considered the largest CO₂ permit spot market, with headquarters in Paris, France. On October 26th, 2012 BlueNext announced that it would close permanently its spot and derivatives trading operations as from December 5, 2012.

addition, he highlighted that two years after its first call of proposal, the AF has approved 25 concrete urgent adaptation projects covering all fields of adaptation and targeting the most vulnerable group, as well as endorsed 14 projects, which are in the pipeline to be fully developed and approved. The key message of the chair, however, was focussed on the financial status of the AF.

After a general acknowledgement in the plenary of all Parties that the AF is on track to become the key fund for adaptation actions until the GCF becomes operational, the chair of the CMP set up a formal contact group to draft a decision text on the report to be adopted by the CMP. In this contact group, it was not difficult to find a common ground among parties in the beginning for acknowledging the progress achieved by the Fund in 2012. Nevertheless, the discussion became difficult as it came to discuss the financial prospect of the AF. Developing countries pushed for the need to find additional ways of ensuring predictability, adequacy and sustainability of the AF's financial resources. Several options were tabled by some developing country groups such as an extension of the share of proceeds of CERs from CDM project activities to those issued through the Joint implementation and other carbon trade schemes that are linked to the KP. In addition, they also sought legal advice from the UNFCCC Secretariat on how to transform the AF as an Operating Entity of the financial mechanism of the convention¹⁸. In this particular regard, developed countries, mostly represented by the representative of the EU, Australia, Japan and Canada were in fact not averse to the proposal as such, but were uncomfortable in the way developing countries wanted to expedite the process.

After a long discussion that lasted beyond the allocated time and an extension for two additional days, Parties decided to consider, at its ninth session, means to enhance the sustainability, adequacy and predictability of these resources, including the potential to diversify revenue streams of the Adaptation Fund, taking into consideration the report of the Adaptation Fund Board.¹⁹

Noteworthy is that Parties in Doha also decided²⁰ in paragraph 21 of the outcome of the work on further commitments under the Kyoto Protocol that the Adaptation Fund *shall be further augmented through a 2 per cent share of the proceeds levied on the first international transfers of AAUs and the issuance of ERUs for Article 6 projects immediately upon the conversion to ERUs of AAUs or RMUs previously held by Parties*. On the one hand this decision translated the acknowledgment by Parties for the progress achieved by the AF since its operationalisation, even though this extension of the levies will not significantly change the finance resources of the Fund because of the low mitigation ambition in the second period. On the other hand, this could be understood as a strong signal that the AF urgently needs further sources of funding in addition to its share of proceeds of CERs from CDM project activities. However, it remains questionable how the AF will take advantage of this decision in the course of the next year, since the terms and conditions of services between the CMP and the World Bank acting as Trustee only foresee the monetisation of the share of proceeds of CDM project activities.²¹

¹⁸ The AF board is the operating entity of the AF

¹⁹ Draft decision -/CMP.8: Report of the Adaptation Fund Board

http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cmp8_afboard.pdf

²⁰ FCCC/KP/CMP/2012/L.9

²¹ FCCC/KP/CMP/2007/9/Add.1. It remains to see how this will work. In the decision on the initial review of the institutional arrangement of the AF, the CMP *Requests* the Chair of the Adaptation Fund Board to discuss with the World Bank the extension of the terms and conditions of services to be provided by the International Bank for Reconstruction and Development (the World Bank) as trustee for the Adaptation Fund. This means in other work that the Chair with the assistance of the Trustee could take action and extend the terms and conditions of services of the AF in the way that it captures the monetization of ERU, AAU, etc... of the first commitment period of the KP

5.2 Review of the interim arrangements of the Adaptation Fund:

The review of the institutional arrangements of the AFB is a longstanding issue that was supposed to be closed in Durban. Starting in Cancun in 2010, where the terms of reference of the consultant in charge of the independent performance review were agreed upon, and the subsequent initial discussion on the finding of the consultant²² in Durban, Parties provided further guidance to the SBI on how to deal with the review during this year. It became clear that the interim review should have to be closed in Doha.

As a reminder, the Adaptation Fund Board (AFB) was established in Bali in 2007 at the third meeting of the Conference of the Parties serving as Parties to the Kyoto Protocol (CMP) as the operating entity to supervise and manage the Adaptation Fund. The CMP also decided at the same session that the AFB should work under the authority of and be fully accountable to the CMP, which is in charge of its overall policies. Upon invitation, the Global Environmental Facility was selected to provide the AFB, the secretariat services and the International Bank for Reconstruction & Development of the World Bank to serve as trustee. Both arrangements were on an interim basis²³. Accordingly, it was also adopted that the effectiveness and adequacy of these institutional arrangements should be reviewed with a view to the CMP adopting an appropriate decision on this matter at its seventh session in Durban.

In the course of the discussion on this matter, Parties acknowledged the effectiveness and efficiency of the two interim institutional arrangements in the delivery of their services to the Board, as well as the operational improvements identified in the report on the review of the interim arrangements of the Adaptation Fund.

Furthermore, Parties requested the chair of the AF to discuss with the World Bank the extension of the trustee services as agreed by in Bali and to submit a recommendation on this regard at its next meeting. In addition, the CMP extended the arrangements with the Secretariat until the completion of the second review²⁴. Noteworthy is also the request of the CMP to the SBI to undertake a second review of the AF based on the ToR fixed in 6/CMP.6 and further amendments, if it deemed as necessary to be presented to the CMP at its next meeting. The review should terminate no longer than in 2014. The rationale is to re-evaluate the AF jointly with the fifth review of the financial mechanism of the Convention. This could also be understood as part of the exercise to rationalise the financial mechanism.

Other key decisions related to the continuation of the interim institutional arrangements is in the decision on the report of the AF in para 12 of the report of the AFB²⁵, which calls on a process of *selecting host institutions for entities under the convention and the wider United Nation System, including steps and time frames required to conduct open an competitive bidding processes....* This means, in other words, that an open process should start, which will explore whether there are other entities related to the UN system, which could provide the same services provided by the Trustee. This paragraph was inserted on the insistence of developing countries, which were not willing to mandate the World Bank as a permanent trustee without having the assurance that there is no institution capable to provide the services as provided by the World Bank in a cost-effective manner.

²² After further guidance of the SBI in the June session, it was clear that this process has to be closed in Doha

²³ 1/CMP.3 . See: <http://unfccc.int/resource/docs/2007/cmp3/eng/09a01.pdf#page=3>

²⁴ Advanced unedited version: Draft decision -/CMP.8. para 4-5. See:

http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cmp8_initial_review_af.pdf

²⁵ http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cmp8_initial_review_af.pdf

To sum up, the discussion on the AF was politicised in Doha as usual. The decisions adopted by the CMP have evidenced that even without a significant change for the AF in terms of financial resources and clarity on prospects of the AF after the GCF becomes operational the AF is one of the key funds to finance adaptation in developing countries. The decisions open different doors, which, if capitalised could enable the AF to further support vulnerable communities against the occurring impact of climate change. The discussion at the next CMP on how to enhance the sustainability adequacy and predictability of the Fund will be indeed a great opportunity to further consider the future of the AF. Until then, the AF has to stay on track by accrediting further National Implementing Entities and by financing good adaptation projects as much as possible. The discussion in Doha could also be understood as a signal to the AF Board to proactively lay foundations on key ingredients that could feed and best inform the discussion at the SBI

5.3 Adaptation Fund activities at the sideline of COP18/CMP8:

As usual at each COP, the AFB organised its annual side event. This event was marked by the announcement of the AF annual photo contest. The theme of this year's contest was "Food and Agriculture" and participants were encouraged to depict "the various ways in which individuals and communities in developing countries are adapting to climate change in the food and agricultural sectors."

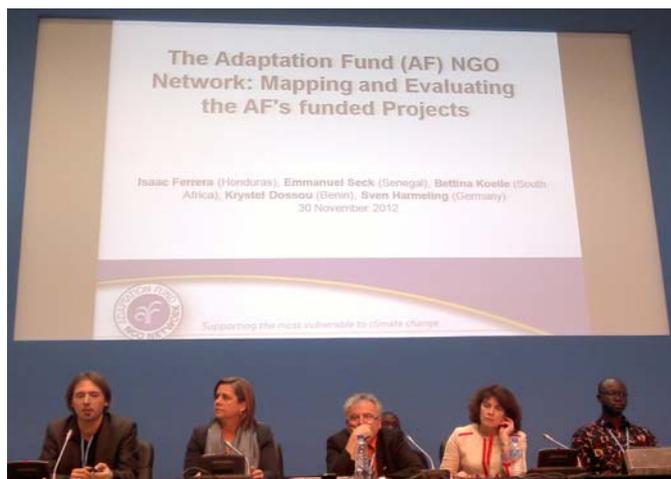


First Place: Greenhouses for Adaptation by Ihsan Ilzeg. Greenhouse gases and climate change creates one of the important factors threatening Erzurumda, Turkey. Here, the cold climate often damages crops. Greenhouse agriculture is a cheap, but not yet common solution that may be preferred in the future in order to protect the crops.

At this well attended side-event, the AF gave the independent AF NGO Network the floor to present the findings of its case studies conducted in seven countries (Benin, Honduras, Jamaica, Nicaragua, Pakistan, Senegal and South Africa). The presenter showed the findings of each case and highlighted that unfortunately those findings are not applicable to all countries because of the special circumstances of each implemented project and each country's reality.

5.3.1 NGO Network side event at the COP

The AF NGO Network also convened its own side event, in which all case studies of the related countries were presented in depth. The event titled "Mapping and Evaluating the AF's Funded Projects" was also well attended.



The case study compilation describes in a concise manner the state of project implementation, based on in-country consultations by making use of qualitative research techniques considering project documents and processes. From the recommendations that have been drawn from the study one can retain among others that there is a need to involve local stakeholders and vulnerable groups from the outset of each project in order to ensure the best benefits out of the interventions. In addition, inter-institutional and multi-stakeholder coordination are seen as means for the projects to promote transparency and that direct access is no impediment to having a direct link to local communities. In addition, it also came out that ownership is higher when the project has some infrastructure components or tangible deliveries.

5.3.2 CSO Dialogue in Bonn

The AF pursued its interaction with CSOs through the so-called "CSO Dialogue". The meeting took place on Monday, December 10th, one day before the meeting of AF's committees with a group of civil society organizations mainly representing the AF NGO Network.

The AF NGO Network is an independent network from the AFB, which has been initiated in 2010 by Germanwatch and other NGOs to track projects and NIE process in developing countries. At this meeting three new partner organisations: Practical Action Kenya; The NGO Forum on Cambodia; Forum Climate Change (ForumCC Tanzania). Another partner of the network, Indigo South Africa, was cut in via Skype.

The meeting started with an introduction of the AFB chair, Luis Santos from Uruguay, followed by a welcome and thank-you statement from Sven Harmeling (Germanwatch), who presented the partners and key milestones achieved by the network since the last Board meeting such as the recent release of a case study conducted in six countries.

Country and Implementing Entity	Project context	project approval date	Partner in compiling the case study, contact person
1. Honduras UNDP)	Addressing Climate Change Risks on Water Resources in Honduras	March 2011	Fundación Vida, Isaac Ferrera
2. Pakistan (UNDP)	Glacier-lake outburst floods	December 2010	LEAD Pakistan, Kashmala Shahab Kakakhel
3. Senegal	Adaptation to coastal erosion in vulnerable areas	September 2011	Enda TM, Emanuel Seck

4. Nicaragua (UNDP)	Reduction of Risks and Vulnerability Based on Flooding and Droughts in the Estero Real River Watershed	December 2010	Centro Humbolt, Mónica López Baltodano
5. Jamaica	Enhancing the Resilience of the Agriculture Sector and Coastal Areas to Protect Livelihoods and Improve Food Security	June 2012	Panos Caribbean, Indi McLymont-Lafayett
6. Benin	Adaptation of Cotonou Lagoon ecosystems and human communities to sea level rise and extreme weather events impacts	?	OFEDI, Krystel Dossou
7. South Africa	Establishing and NIE and developing a project proposal for the AF	?	INDIGO development & change, Bettina Koelle

Afterwards, Alpha Kaloga (Germanwatch) presented the case studies of the AF NGO Network, by explaining the rationale, used methodologies, limitation of the findings as well as the key recommendations that could be drawn out of the studies. In his view, all projects are much appreciated by the beneficiaries and the governments and come timely in the targeted areas, as climate change is manifesting itself harshly and often. However, the projects address only some parts of the overall adaptation needs within each respective country. Therefore, there is a clear call for scaling up the resources allocated to address other adaptation activities not covered by the projects. He also emphasised that the findings are not applicable to all countries, because of the different scope of the studies and the bound time constraints that did not allow a full and in-depth assessment of each case for general recommendation applicable to all AF funded projects. The case studies report stimulated discussion and interest by the Board members, who on the one side posed specific questions to some case countries' studies. One member of the Board asked how far the methodologies used in the case studies comply with the guidelines and requirements of the AF. Kaloga explained that, although the budget and the time spent for the case studies did not allow tracking whether all guidelines of the AF were met, however, the case studies strived to pursue certain requirements of the Board such as the level of involvement and the level of consultation of the targeted vulnerable communities. Finally, the chair encouraged to further continue initiating new papers regarding the implementation of projects and requested to try linking them with the AF guidelines.

Afterwards each of the partners from developing countries briefly provided the state of debate and development regarding the AF and its funded projects in their respective countries. This was followed by a question and response session. Interesting was a statement of one Board member, who very much appreciated the input, particularly the perception and expectations of the targeted people. He said that it is important for the Board members not only to discuss on paper about the project, but also to have some clear pictures on what is actually going on in the project regions and that the interventions of the partners have met his expectations.

In the second part, the AF Network presented its talking points on key items to be discussed at the upcoming meeting as well as some reflections on how the AF could take advantage of the discussions in the GCF. This presentation was followed by a strategic interaction between the AFB members present at the Board meeting and the CSO on the strategic direction of the AF with respect to the GCF. Sven Harmeling presented potential scenarios regarding the future

relationship between the AF and the GCF and analysed the implications of the decisions in Doha for the future of the AF.²⁶

As usual, the CSO dialogue was an interesting exercise for both CSO and AFB members, which enabled a frank interaction among both stakeholders working or following the AFB. The report of this dialogue was also subject of discussion at the AFB meeting, where the chair once again expressed his gratitude for the constructive work being done by the CSO with regard to the AF.

6 Other matters

6.1 *Election of the Chair of the AF and its committee*

As usual at the end of each year, the Board proceeded to the election of its chair and of its committee.

Adaptation Fund Board: The Board decided to appoint Mr Hans Olav Ibrekk (Norway, Western Europe and others Group) as its new Chair and Mr Mamadou Honadia (Burkina Fasso, Africa) as its new Vice-Chair. In addition, the AFB made the following appointments regarding the chairmanship of two committees and the Accreditation Panel as following:

Ethic and Finance Committee: Ms Medea Inashvili (Georgia, East Europe) as Chair and Ms Su-Lin Garbett-Shiels (United Kingdom Annex I Parties) as new Vice-Chair.

Project and Review Committee: Ms Laura Dzelzyte (Lithuannia, Eastern Europe) as Chair and Mr Jeffery Spooner (Jamaica, Latin America and Caribbean) as Vice-Chair.

Accreditation Panel: Chair Mr Philip Weech (Bahamas, Latin America and Caribbean) as Chair and Ms Angela Churi-Kallhaug (Sweden, Western Europe and other Group) as Vice-Chair.

²⁶ see e.g. a recent article which also addresses this issue under:
<http://www.dandc.eu/articles/220645/index.en.shtml>

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